

**U.S. Environmental Protection Agency, Region 10
Office of Water, Drinking Water Unit**



Program Evaluation Report

Idaho Department of Environmental Quality
Drinking Water State Revolving Fund
State Fiscal Year 2019

February 2020

Final

Executive Summary

The Idaho Department of Environmental Quality (IDEQ) Water Quality Program manages the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF) and a planning grant program, as well as other water quality programs. IDEQ has administered the Drinking Water State Revolving Fund since program inception in SFY 1998.

The principal strengths of the Idaho DWSRF program continue to be:

- A highly capable group of experienced and dedicated staff. These people invest considerable time and effort in marketing the program to potential applicants, assisting loan applicants with project development, as well as oversight of projects that are being constructed with DWSRF financing.
- A strong partnership and collaboration with the Drinking Water Program to use the DWSRF loan funds and set-aside funds for a variety of innovative purposes to provide public health protection. This includes using set-aside funds to provide matching grants so that water systems can hire professional engineers to prepare facility planning documents in preparation for an infrastructure project or using set-aside funds to acquire technology like the auto-dialer system to remind water system operators about missing water samples. We also note that Idaho has recently restarted its source water protection grant program, to offer effective assistance to protect sources of drinking water.
- A good relationship with local Councils of Government (COGs) to help borrowers with project management and implementation of some of the Federal requirements that apply to the DWSRF program such as Davis–Bacon.

In the Program Evaluation Report (PER) for the last several annual reviews EPA has raised the issue of loan program pace. However, over the last three years, there have been distinct peaks and valleys. During SFY 2017, the amount of loans dropped to \$6.1 million, at that time the lowest tally in 16 years. Then in SFY 2018, DEQ amassed a total of \$21 million in signed loans, the largest amount since 2010 and 3rd highest in program history. SFY 2019 again saw a marked tailing off to \$6 million. That would be of concern, but for the largest loan in Idaho’s DWSRF program history, \$32 million for the City of Lewiston, being signed in October 2019.

During this year’s annual review, we discussed topics including new requirements under AWIA, HQ priorities, and financial audits.

Introduction

This Program Evaluation Report (PER) summarizes the results of an annual review of the Idaho Drinking Water State Revolving Fund (DWSRF) conducted by the Environmental Protection Agency (EPA) for State Fiscal Year (SFY) 2019. The review is based on several critical elements:

1. The Intended Use Plan (IUP) for the SFY 2019 Idaho DWSRF program.

2. The SFY 2019 Annual Report for the Idaho DWSRF, covering the period from July 1, 2018 to June 30, 2019 (SFY 2019).
3. An analysis of data for State Fiscal Year 2019 maintained in EPA's Drinking Water National Information Management System (DWNIMS).
4. An analysis of project data for State Fiscal Year 2019 maintained in EPA's Drinking Water Project and Benefits Reporting (PBR) system.
5. An on-site discussion of the DWSRF program with DEQ staff, and a review of project files on November 14-15, 2019.

IDEQ DWSRF Capitalization Summary

IDEQ has administered the Drinking Water State Revolving Fund since program inception in SFY 1998. In that year, the State received its first capitalization grant award of \$14,157,800 while the State deposited a matching contribution of \$2,831,560. Through the end of SFY 2019, the EPA has awarded \$214,969,324 in capitalization grants and the state has deposited \$44,093,865 in matching contributions, for a total capitalization amount of \$259,063,189. The total value of the capitalization for the DWSRF will increase every year due to the interest that the DWSRF earns on its loan portfolio as well as on its invested cash balance. Table 1 below shows a history of Federal capitalization and grant-by-grant expenditure information for the Idaho DWSRF.

Table 1: Idaho DWSRF Federal Capitalization Summary					
Grant #	Grant Amount	Total Draws thru June 30, 2018	Draws during SFY 2019	Total Draws thru June 30, 2019	Undrawn Funds at June 30, 2019
1997-2015	\$ 187,309,324	\$ 187,309,324			
FS-980030-16	\$ 8,312,000	\$ 8,302,020	\$ 9,980	\$ 8,312,000	\$ -
FS-980030-17	\$ 8,241,000	\$ 4,279,192	\$ 3,961,808	\$ 8,241,000	\$ -
FS-980030-18	\$ 11,107,000	\$ -	\$ 8,102,044	\$ 8,102,044	\$ 3,004,956
Total	\$ 214,969,324	\$ 199,890,536	\$ 12,782,405	\$ 211,964,368	\$ 3,004,956

Source: (EPA's Compass Data Warehouse)

DWSRF Public Health Benefits

The DWSRF program is a government funded water infrastructure financing program designed to provide significant public health benefits by ensuring delivery of clean and safe drinking water. The majority of each year's capitalization grant is used to provide low interest loans to help public water systems to maintain, or return to, compliance with drinking water regulations. The table below illustrates Idaho's success in delivering these benefits since program inception in 1998.

Table 2: Idaho DWSRF Public Health Benefit Summary (1998-2019)			
Categories of Assistance	# Loans	\$ Loans	Population
Assisting Non-Compliant Systems Achieve Compliance	54	\$ 145,173,507	126,229
Assisting Compliant Systems Maintain Compliance	44	\$ 95,341,516	199,971
Assisting Compliant Systems to Meet Future Requirements	5	\$ 5,695,922	3,588
Total:	103	\$ 246,210,945	329,788

Source: (DW NIMS)

The DWSRF program provides a very significant piece of the puzzle to help public water systems deliver clean and safe drinking water via the DWSRF set-asides. Approximately one third of each DWSRF capitalization grant can be reserved for direct grant

funding by the state for such purposes as DWSRF administration and technical assistance (~4%), small systems technical assistance (2%), state program management, including PWSS program supplemental funding (10%), and state and local assistance, including Capacity Development and Source Water Protection (15%).

Idaho continued to experience consistent drinking water program staffing during SFY 2019. Previously, DEQ increased staffing to include a full-time capacity development and operator certification lead. This separate position resulted in implementation of several previously delayed capacity development and small system technical assistance initiatives including updates to Idaho's technical, financial, and managerial (TFM) guidance document. Additionally, DEQ has been doing several cross-program initiatives among the drinking water, source water protection and surface water programs. Below are some highlights from activities undertaken with Idaho DWSRF set-aside funding:

Set-Aside Activity Highlights

- Completed 112 Source Water Assessments – 43 new assessments, 69 updated assessments.
- Certified or recertified 12 Source Water Protection Plans.
- Several Source Water Protection projects developed. These include enhancing the online Source Water Protection planning application, conducting six Source Water Assessment/Protection workshops throughout the state, and contracting with external partners including Idaho Rural Water, University of Idaho, Idaho Department of Water Resources, and Idaho Project Learning Tree.
- Led or participated in 72 Source Water Protection education and outreach activities.

- Completed 1095 engineering projects of such as plan and specification reviews. Also, completed 433 enhanced sanitary surveys. Most of the technical assistance provided to public water systems occurs during these activities.
- Using the capacity development set asides, DEQ obligated \$248,935 in planning grants for 8 communities to prepare facility plans for drinking water improvements.
- DEQ continued collaboration with IRWA and RCAC, third-party providers, to target their technical assistance to systems using the sanitary survey Preliminary Inspection Findings Form (PIFF).
- DEQ continued its Sanitary Survey Continuing Education Units (CEUs) program, issuing 60 CEU certificates to operators of very small systems. This program has been successful in increasing the operator's knowledge of not only drinking water system requirements, but also in how to effectively operate their system.
- DEQ continued maintenance on several outreach products including the PWS Switchboard, auto-dialer, health advisories, and postcards.

Sustainability

The DWSRF program's primary mission of delivering public health benefits has been in place since program inception. More recently the DWSRF program has been encouraged to branch out into funding loans (and providing set-aside funding for) projects or activities under the broad umbrella of sustainable infrastructure.

This activity often occurs when a project is needed to address an existing public health problem. In the course of addressing that problem, the borrower often installs a newer, more energy efficient water pump, meter, or some other type of device. If the project is rehabilitating a leaking water reservoir, water main, or installing new water meters, the water system will likely see an improvement in water conservation. There are also many non-project activities, funded by set-asides, whereby water systems can become more sustainable. These include water audits, energy audits, facility planning grants, long-term resiliency planning, source water protection grants, among others. In addition, the DWSRF's complementary program, Capacity Development, has since program inception in 1998 been helping water systems deal with sustainability issues by developing or maintaining their Technical, Financial, or Managerial capacity.

For a couple of years after ARRA, the DWSRF program was required to provide a prescribed amount of funding for GPR activities. However, even though this requirement ended in 2011, the Idaho DWSRF has continued to encourage GPR funding. During SFY 2019 DEQ identified \$2.4 million worth of GPR project costs, primarily related to water and energy conservation.

The Project Fund

The Idaho DWSRF is operated as a direct loan program. Through the end of SFY 2019 it had \$270,061,115 (Federal Grant Funds + State Match + Loan Repayments and Interest Earnings – Set-Asides) available for providing loan assistance to public water systems. Through the end of the same time period it had executed binding commitments for 114 projects with a cumulative total loan

amount of \$257,271,520. It thus had committed 95% of the available funds, which is on par with the national average.

New Programmatic Requirements

Additional Subsidy Reserve: Since 2009, each state has been required to provide a minimum amount of additional subsidy (grant) funding to borrowers. The table below shows Idaho's performance to date at meeting this requirement. The state appears to have met the minimum subsidy commitment requirement for all applicable grants.

Table 3: Idaho DWSRF Additional Subsidy Reserve Tracking (2010 - 2019)						
Grant #	Grant Amt	ASR % (req)	ASR \$ (req)		ASR \$ committed	ASR \$ expended
FS98003010	\$ 13,573,000	at least 30%	\$ 4,071,900		\$ 4,071,900	\$ 4,007,755
FS98003011	\$ 9,418,000	at least 30%	\$ 2,825,400		\$ 3,713,047	\$ 4,189,489
FS98003012	\$ 8,975,000	at least 20%, no more than 30%	\$ 1,795,000	\$ 2,692,500	\$ 2,692,800	\$ 2,320,325
FS98003013	\$ 8,421,000	at least 20%, no more than 30%	\$ 1,684,200	\$ 2,526,300	\$ 1,795,000	\$ 1,774,915
FS98003014	\$ 8,845,000	at least 20%, no more than 30%	\$ 1,769,000	\$ 2,653,500	\$ 2,211,250	\$ 1,666,369
FS98003015	\$ 8,787,000	at least 20%, no more than 30%	\$ 1,757,400	\$ 2,636,100	\$ 2,251,750	\$ 1,746,744
FS98003016	\$ 8,321,000	at least 20%, no more than 50%	\$ 1,664,200	\$ 4,160,500	\$ 2,351,188	\$ 1,065,187
FS98003017	\$ 8,241,000	at least 20%, no more than 50%	\$ 1,648,200	\$ 4,120,500	\$ 2,219,260	\$ 896,749
FS98003018	\$ 11,107,000	at least 20%, no more than 50%	\$ 2,221,400	\$ 5,553,500	\$ 2,604,789	\$ 249,517

Source: (PBR, state reported data)

Davis-Bacon Wage Rates: Each state is required to ensure that all loan contracts with borrowers, and the subsequent construction contracts between borrowers and contractors contain the correct language about Davis-Bacon wage rates. Idaho is implementing this requirement.

American Iron and Steel: Since 2014 DWSRF projects have been required to comply with the American Iron and Steel (AIS) requirement. This requires all DWSRF borrowers to use iron and steel products that are produced in the U.S. for their water system projects. Idaho is complying with this requirement.

Table 4: Region 10 DWSRF Comparative Weighted Average Loan Rates			
	State Fiscal Year		
State	2017	2018	2019
Alaska	1.5%	1.5%	1.5%
Idaho	1.3%	2.1%	1.6%
Oregon	1.6%	1.3%	2.0%
Washington	1.3%	1.2%	1.2%
National Average	1.0%	1.2%	1.6%

Interest Rates

The Idaho DWSRF currently sets loan rates once a year. The base loan interest rate for SFY 2019 was 3.0%. As shown in Table 4 above, the average loan rate was on par with other Region 10 states, as well as the national average. The term for DWSRF loans is capped at 20 years, with the exception of disadvantaged loans, which may have up to a 30-year term, and an interest rate as low as 0%. Idaho made six disadvantaged assistance loans during this period.

State Match [40 CFR §35.3550(g)]

The State of Idaho receives match for the DWSRF from the Water Pollution Control Account, which is perpetually appropriated to DEQ by statute. In addition DEQ has started to use fee income to meet part of the match requirement. The table below shows the match contributions that Idaho has made to its DWSRF, including the contributions made during SFY 2019. Idaho continues to meet the matching requirement.

Table 5: State Match Compliance						
	Total Capitalization Grants at 6/30/18	Total State Match at 6/30/18	State Match %	Total Capitalization Grants at 6/30/19	Total State Match at 6/30/19	State Match %
Period Totals	203,862,324	41,872,465	21%	214,969,324	44,093,865	21%

Source: (DW NIMS)

Program Pace and Perpetuity

The following tables demonstrate Idaho's performance at utilizing DWSRF funds expeditiously as well as protecting the corpus of the Fund.

Program Pace and Perpetuity - Idaho DWSRF					
Table 6: Loans as a Percentage of Funds Available (Fund Utilization Rate)					
SFY	Total Project Funds Available*	Total Loans	Idaho	Region 10	U.S.
2015	\$232,585,126	\$210,208,717	90%	113%	93%
2016	\$237,204,533	\$224,008,087	94%	112%	95%
2017	\$243,353,827	\$230,173,094	95%	111%	95%
2018	\$259,637,455	\$251,188,381	97%	109%	96%
2019	\$270,061,115	\$257,271,520	95%	106%	95%
Table 7: Outlays as a Percent of Grants					
SFY	Cumulative Grants	Cumulative Outlays	Idaho	U.S.	
2017	\$195,621,324	\$193,216,372	99%	97%	
2018	\$203,862,324	\$198,437,636	97%	97%	
2019	\$214,969,324	\$201,073,305	94%	97%	
Table 8: Disbursements as a Percentage of Funds Available					
SFY	Funds Available for Projects	Loan Disbursements	Idaho	U.S.	
2017	\$ 243,353,827	\$ 193,677,267	80%	83%	
2018	\$ 259,637,455	\$ 202,746,437	78%	83%	
2019	\$ 270,061,115	\$ 218,052,667	81%	83%	
Table 9: Loan Repayments as a % of DWSRF Assistance					
SFY	DWSRF Loans	Repayments	Idaho	U.S.	
2016	\$ 224,008,087	\$ 53,959,806	24%	29%	
2017	\$ 230,173,094	\$ 60,497,799	26%	30%	
2018	\$ 251,188,381	\$ 67,361,331	27%	31%	
2019	\$ 257,271,520	\$ 75,725,425	29%	32%	
Table 10: Loan Yield					
SFY	Loan Interest Earnings	Average Loans Outstanding	Rate of Return	CCI	
2017	\$ 1,264,400	\$ 106,459,737	1.2%	3.0%	
2018	\$ 1,334,437	\$ 107,751,363	1.2%	3.9%	
2019	\$ 1,435,770	\$ 112,198,877	1.3%	2.7%	
Table 11: Investment Yield					
SFY	Investment Interest Revenue	Average Investment Assets	Yield Rate		
2017	\$ 833,658	\$ 36,730,923	2.3%		
2018	\$ 888,434	\$ 36,621,143	2.4%		
2019	\$ 1,032,370	\$ 35,446,905	2.9%		

The five-year trend in Table 6 shows steady performance in the percentage of available funds being used to provide loans, which is on par with the national average. While the \$10 million transfers from the DWSRF to the CWSRF have been a key driver for the improvement, Idaho has also been able to sign more than \$58 million in DWSRF loans over the last five years, as well as the record-setting \$32 million loan in early SFY 2020.

Another pace measure in Table 7 looks at how quickly states are spending the grants awarded to them. As shown in that table, Idaho's cumulative outlays from the Federal Treasury (cash draws for DWSRF loans and set-aside funds), have been on par with the national average. However, the trend over the last three years has been down.

Another measure examines how much of the total funds available for loans has been disbursed for project expenses. Table 8 shows that Idaho's loan disbursements have been lagging slightly compared to the national trend.

Table 9 looks at the role of repayments in the Idaho DWSRF program. It shows the percentage of DWSRF assistance (i.e., loans) that is composed of repayments. As the DWSRF program matures, repayments should play a larger part in meeting the need for loans. Idaho's trend

has been gradually increasing over the past five years, similar to the national trend during the same period.

The loan yield in Table 10 looks at the rate of return on the Idaho DWSRF project loan fund over the past three years, compared to historical cost indices contained in the *Engineering News-Record's* Construction Cost Index (CCI). Over the last three years the rate of return on the loan portfolio has been lower than the CCI inflation rate for the same period. Losses in the Fund's buying power may be offset by earnings from Fund investment interest. The investment yield in Table 11 describes this yield over the same time period. A higher yield rate earned on the invested balances (loan interest payments, loan repayments, and interest earnings) can help to offset the potential for inflationary losses from low loan yields. The yield on Idaho's invested DWSRF balances over the last three years has continued to be higher than the loan yield.

Financial Measures

The EPA uses a set of financial and programmatic measures for the DWSRF. The results for each measure for Idaho for SFY 2019, along with baseline comparisons, are presented in the section below.



The first measure in Chart 12a is calculated by dividing the funds disbursed for DWSRF loans by the Federal cash draws for DWSRF loans. In general, the Return on Federal Investment should be at least 120%. Through the period Idaho was consistently above the threshold level. This compares to a national return of 200%.

The Fund Utilization Rate shown in Chart 12b is calculated by dividing the total dollar amount of DWSRF loans by the total amount of funds available for loans. It shows how effectively a state is making loans with the money that is available for loans. The chart above shows Idaho's performance and trend over the past three years. Idaho's performance over this period has shown slight improvements and has been on par with the national average.

The measure illustrated in Chart 12c shows the speed at which funds from signed loans are disbursed to systems for construction expenses. It is calculated by dividing the loan disbursements by loans. Idaho's performance on this measure was consistently higher than the Region 10 average,

meaning that projects in Idaho are moving ahead expeditiously and requesting loan disbursements for construction activities.

Because capitalization grants since 2010 come with the requirement to forgive significant amounts of loan principal, EPA uses the measures shown in charts 12d and 12e to look at fund growth excluding the portion of each capitalization grant that is not intended to revolve. As demonstrated in those two measures above, Idaho's growth rate for the past three years has been positive.

The next measure, shown in Chart 12f, shows how quickly set-aside funds are being utilized. It is calculated by dividing the total amount of set-asides awarded by the total amount of set-asides expended. Over the last three years Idaho's set-aside spending rate has continued to improve and easily outpaced the national average.

Chart 12g depicts Idaho's recent performance with respect to committing and disbursing available loan funds. This is a new measure by which EPA is tracking the efficiency of states revolving their Fund balances into loan disbursements. The trend line indicates that Idaho's undisbursed Fund balance is declining. This indicates that Idaho, in the near term at least, is doing a good job of committing additional funds to loans, and then expeditiously expending those funds for eligible project expenses.

The final chart, Chart 12h, measures the extent by which internal growth is generating additional funding for new projects (shown here as a percentage of awarded capitalization grants). Idaho's internal growth rate over the last three years shows a positive trend.

Cash Draw Rules [40 CFR §35.3560]

The DWSRF regulations require that cash disbursed to borrowers be drawn proportionately from the EPA capitalization grants and the state's matching contributions. Because set-aside use, as well as other factors may have an impact on proportionality, states are given considerable flexibility to choose the proportionality calculation method that works best for them. The Idaho DWSRF uses the grant-specific method. Under that method, cash draws for loan funds were to be drawn from the initial FFY97 grant at the proportional rate of 81% Federal to 19% State, with cash draws from subsequent grants having slightly different proportionality rates depending on the amount of set-asides taken. For SFY 2019, the proportionality rate was 77.53%. The Idaho DWSRF program is in full compliance with this requirement.

Set-Aside and Loan Transaction Reviews

As part of the annual review process EPA conducted transaction testing of a sample of 6 cash draws (for a combined total of \$843,030) made during the period.

Generally Accepted Accounting Principles (GAAP) [40 CFR §35.3135(h)]

The states are required to follow Generally Accepted Accounting Principles in maintaining the financial records for their Drinking Water State Revolving Funds. Idaho follows GAAP in the maintenance of its records. The language of the standard loan contract requires borrowers to follow GAAP in the maintenance of their financial records as well. Loan recipients are required to submit financial statements to the Idaho State Legislative Services Office (LSO). These financial statements are available for DWSRF staff to review, beyond the review that is supposed to be provided by the LSO staff.

Reports and Audits [40 CFR §35.3570]

Reporting

The state does three types of reporting to EPA on the progress of the Idaho DWSRF. First, every year it completes a data report that is entered into EPA's Drinking Water National Information Management System (DWNIMS) for the Drinking Water Revolving State Fund. The report for SFY 2019 was submitted and EPA incorporated that data in the final DWNIMS national data set that was presented at the Council of Infrastructure Financing Authorities (CIFA) Conference in November 2019 in Cleveland, Ohio. The DWNIMS national data was distributed on a USB thumb drive at the CIFA meeting. The Idaho portion of that data set is the basis for much of this PER. Second, Idaho is required to report project level data on a quarterly basis into EPA's Drinking Water Project and Benefits Reporting (PBR) System. Finally, Idaho's DWSRF capitalization grant requires the state to submit an annual report by October 30 every year. Idaho submitted a draft annual report for SFY 2019 on December 2, 2019.

Audits

Under EPA's audit guidance, each state is strongly encouraged to conduct a separate, annual audit of the DWSRF programs. In the Drinking Water SRF Operating Agreement between EPA and IDEQ, there is a provision for an annual audit by staff auditors from the Legislative Services Office. The DWSRF program is typically treated as a major program under the Statewide Single Audit. For the past few years, Idaho has also contracted for an Agreed Upon Procedures (AUP) report in lieu of a full audit. This is largely aimed at delivering a significant cost savings to the program, while producing essentially the same end product. At the time of this review the AUP process for SFY 2018 has just completed. Because of the significant lag behind the fiscal period being reviewed, Idaho is considering options for expediting the audit for SFY 2019.

With regard to the subrecipient audits that are required of DWSRF borrowers that expend more than \$750,000 in Federal funds in a fiscal year, IDEQ has a standard loan condition that addresses this audit requirement. Additionally, the state provides annual guidance to borrowers about how much in Federal funds they received during the fiscal period.

Review of Project Management Practices

The 1996 SDWA Amendments and the DWSRF program regulations also contain a series of requirements that address how the Drinking Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. EPA's review of those aspects of the Idaho DWSRF program for SFY 2019 is discussed in this section of the Program Evaluation Report.

Eligible Activities [40 CFR §35.3525]

The 1996 SDWA Amendments require that Drinking Water State Revolving Funds limit themselves to providing specific types of financial assistance (in addition to the assistance provided through the set-aside programs). Those five types of assistance, defined in the Safe Drinking Water Act include:

1. Loans at or below market rates (as low as 0%) to finance publicly and privately-owned drinking water infrastructure projects;
2. Assistance to disadvantaged communities, including principal forgiveness, negative interest, for a loan term up to 30 years in length;
3. Buying or refinancing the local debt obligations of municipalities and inter-municipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred and SDWA-eligible construction started after July 1, 1993;
4. Guaranteeing, or purchasing insurance for, local obligations where such action would improve credit market access or reduce interest rates for SDWA-eligible assistance; and
5. Providing a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the Fund.

Since the last on-site review the Idaho DWSRF has issued six new loans for a total of \$6,065,155 to provide the type of assistance allowed by the Safe Drinking Water Act and the program regulations. File reviews of two of these projects were conducted during EPA's annual review on November 14-15, 2019.

Intended Use Plan Development [40 CFR §35.3150]

Each Drinking Water SRF program is required to prepare a plan identifying the intended uses of the funds in its SRF and describing how those uses support the goals of the SRF. This Intended Use Plan (IUP) must be prepared annually and must be subjected to public review and comment before being submitted to EPA. EPA must receive the IUP before the capitalization grant can be awarded.

Achievement of Goals and Objectives

The SFY 2019 Intended Use Plan identified goals for the Idaho Drinking Water State Revolving Fund. Idaho's is on track to achieve those goals.

Recommendations

- 1. Annual Reporting:** While we appreciate that there are competing priorities, please provide the DWSRF annual report with financial statements in a timelier manner.